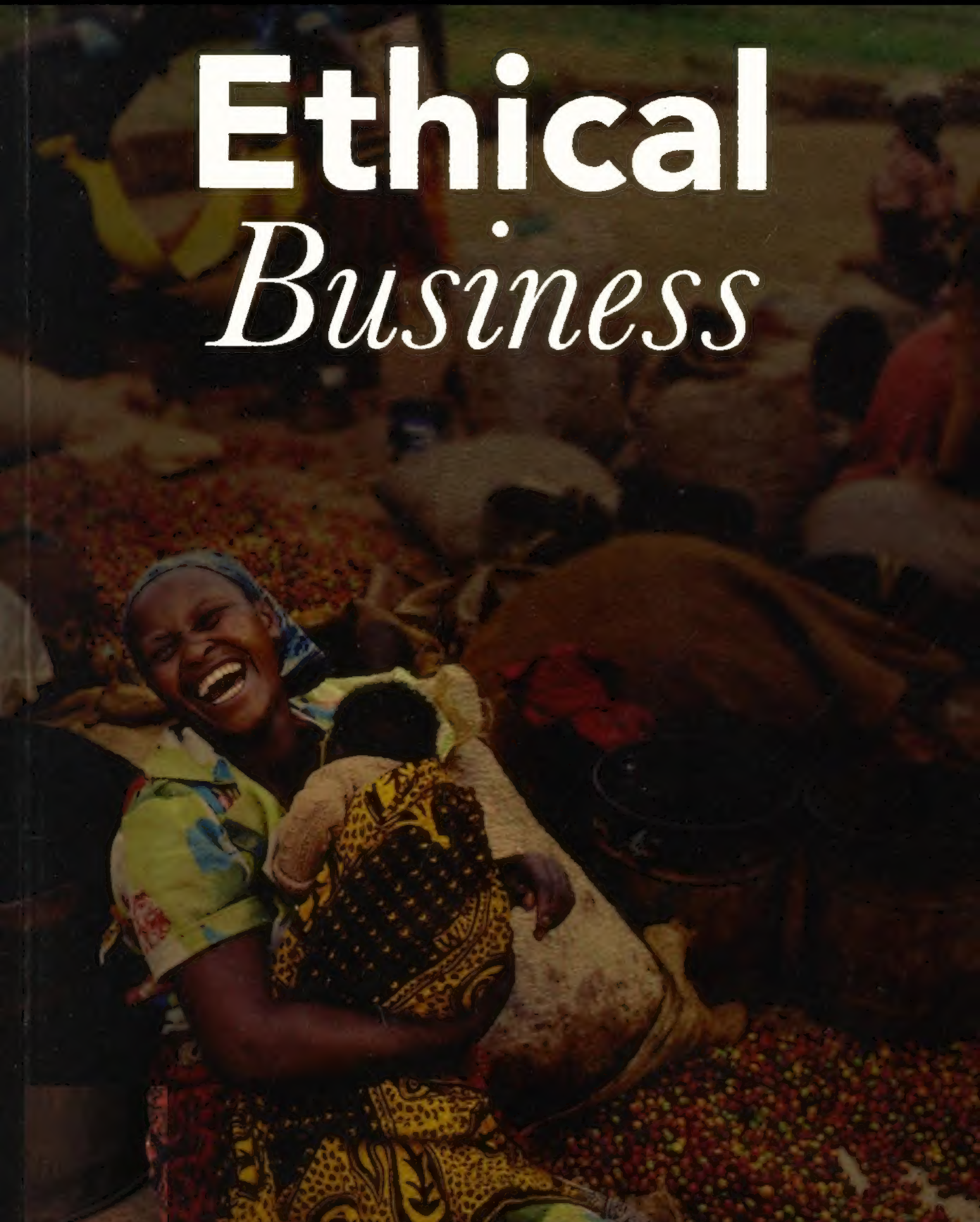
DK ESSENTIAL MANAGERS

Ethical *Business*



SUSTAINABILITY • COMMITMENT • VALUES

TRANSPARENCY • ENVIRONMENT

DK ESSENTIAL MANAGERS

Ethical

Business

LINDA FERRELL & O.C. FERRELL

London, New York,
Munich, Melbourne, Delhi

Senior Editor Peter Jones
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Publisher Stephanie Jackson

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Editors Kati Dye, Maddy King,
Marek Walisiewicz
Designers Paul Reid, Lloyd Tilbury

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Contents

CHAPTER 3

Implementing an ethics programme

CHAPTER 4

Looking beyond your organization

Introduction

Unlike at any other time in our history, business ethics today have a real impact upon each and every one of us. From times of financial crisis to the daily organizational decision-making that creates our work environments, business ethics matter.

The subject of business ethics has moved from the philosopher's study to the boardroom. Ethics are incorporated into every aspect of business strategy and decision-making, and running an ethical business is no longer the province of a few well-meaning individuals, but the essence of sustainable success.

Ethical Business addresses the complex environment of ethical decision-making in today's organizations, large and small. It makes a sound business case for implementing ethical policies and identifies real-life issues, areas of risk, and choices that every company faces in a time of intense scrutiny by media and stakeholders. It looks at the responsibilities of leaders, managers, and employees to their organization, the environment, and wider society and provides a practical introduction to ethics that will enhance corporate achievement and career advancement.

Chapter 1

Understanding business ethics

Understanding what is right or wrong and acceptable or unacceptable based on organizational and societal expectations constitutes business ethics. It is an area that will shape business activity ever more in the 21st century.

Succeeding through ethics

Ethics is a broad area, encompassing diverse business activities—from maintaining work–life balance to assessing the impacts of globalization. In today's business environment, the active management of ethical risks will steer your organization away from crises and boost financial success.

TIP

ASK YOUR EMPLOYER

When looking for a job, make sure to ask during your interview about the company's ethics program. The response you receive will speak volumes about the culture of the organization.

Managing risks

Business ethics is all about managing risks. For example, if you are a human resource manager, you will be concerned with hiring practices, termination processes, and recordkeeping. If you work in marketing you will deal with honesty in advertising, integrity in the sales force, and products that function effectively. If your role is in finance, you will be held responsible for providing accurate and truthful information. Without precise risk identification, proper training, strong leadership, and support for ethical conduct, wrong-doing can and will occur in an organization.

Building ethics into the business

Business ethics are distinct from personal ethics. Personal values, such as honesty and fairness, are important in ethical decision-making at work, but they are just one of the elements that guide the actions and strategies of organizations. Business decisions involve complex economic, legal, and social considerations and it takes years of experience in an industry to understand the risks and expected conduct.

Good businesses have robust ethics programs that run alongside other quality-management systems. They have a set of bedrock principles that guide behavior, and processes for ensuring that these principles are implemented. For example, one of a company's principles may be never to lie to customers and suppliers; this may be supported with zero tolerance for abuse. At the heart of success is strong leadership of enlightened employees, who have been trained to understand the risks associated with their jobs and how to deal with "gray areas."

TIP

PROVIDE STRONG GUIDANCE

Hiring good people puts you on the road to having an ethical organization, but it's not enough on its own. Individuals require strong leadership and encouragement to maintain standards.

GETTING THE BASICS RIGHT

FAST TRACK	OFF TRACK
Focusing on shared ethical principles	Focusing only on individual values
Creating an ethical culture within the organization	Making uncoordinated ethical decisions
Providing strong ethical leadership	Expecting good conduct to spring from the bottom up
Making ethics an ongoing concern within the organization	Addressing issues only as they arise

Setting principles and values

Principles are the foundation of our social existence. They are lawlike statements that provide guidance and direction for behavior, and relate to issues such as fairness, equity, justice, duty, and liberty. Values, on the other hand, are more related to choice. They are enduring beliefs, shared by members of an organization, that establish what is right and wrong.

Understanding principles

Principles are the true north on the ethical business compass—they are self-evident, self-validating, natural laws that do not shift or change. They get in the way of "rule bending" and are key to maintaining an ethical organizational culture. Crucially, they provide guidance for decision-makers who need to address situations that they may not have faced before. Principles help structure relationships, communication, customs, habits, and ultimately the civility that is shown to all stakeholders.

Defining values

Values in business differ from principles in that they are based on the choices made by leaders, external constituents, or the organizational culture. Values are subjective and internal, but develop from our experience of the social environment and the influence of institutions such as schools, universities, religions, and governments. Ethical values relate to areas such as social responsibility, loyalty, and accountability; while business values relate to areas such as competitiveness, innovation, and profitability.

Most larger companies express their values publically in their corporate communications, such as websites and reports: Boeing, for example, espouses business values such as customer satisfaction and quality, but also ethical values such as integrity, diversity, and good corporate citizenship. To make the values more operative, Boeing has a 45-page *Ethical Business Conduct* document to further guide employee behavior. This document covers most ethical risks for the company.

Setting out responsibilities

A business doesn't exist in a vacuum. Everything it does has implications for shareholders, workers, the community, and the economy as a whole. The responsibilities businesses owe to society fit into four categories: economic, legal, ethical, and philanthropic, and when businesses fail to address them, conflicts can occur.

TIP

ACT EARLY

Tackle difficult behavior as soon as it becomes evident—the longer you leave it, the harder it becomes to cope with, and it may affect other members of the team.

Seeing beyond revenue

The notion that a business has a responsibility only to its shareholders was succeeded in the late 20th century by a far broader view of corporate responsibility. Today, maintaining ethical standards and creating a positive rapport with the community is a central part of any firm's long-term success. The wider responsibilities of businesses in today's environment were neatly expressed by management theorist Archie Carroll in the form of a pyramid.

Ascending the pyramid

At the base of the pyramid are an organization's economic responsibilities—its contribution to the economy. From day one, a business needs to be viable, making a profit for shareholders and owners, which in turn drives the wider economy. Businesses that fail to meet their economic responsibilities hinder growth in the economy and reduce the likelihood that foreign companies will invest.

The second level of the pyramid is made up of legal responsibilities; these are the laws that regulate the way that businesses operate. Businesses are required to obey these laws or face penalties enforced by the government. When a society has expectations that businesses aren't meeting, or when it thinks that

a business is acting in an unfair manner, it might take its grievances to court. Legislation may then be passed that regulates the activity in question. Most business laws didn't start off as laws, but as ethical issues that attracted serious and repeated objections.

The third level of the pyramid involves ethical responsibilities. These go well beyond legal responsibilities; they are what the business itself and wider society deems to be right or wrong, or fair or unfair conduct. They are also what shareholders, government officials, customers, and workers perceive as being right or wrong. Unethical conduct may have serious implications that could negatively affect society.

At the tip of the pyramid are philanthropic responsibilities, which are those that improve the community and the well-being of humanity. They are completely voluntary, but increasing numbers of people expect businesses to donate their time and efforts to philanthropic causes; and many businesses are realizing the value of nonprofit activities.

The pyramid of corporate social responsibility

Assessing benefits and risks

When you are immersed in deadlines and day-to-day concerns about profitability and employee management, it is easy to ignore ethics. However, implementation of ethics and compliance programs has tangible business benefits, specifically, reducing your exposure to risks, boosting your performance, and enhancing your prospects.

Winning approval

Meeting ethical responsibilities can be just as important for your business as marketing or brand recognition. When you adopt good business ethics you will see four positive results: a greater level of employee commitment, customer satisfaction, shareholder investment, and higher profits.

Employees working in an ethical environment are more likely to feel satisfied. The Ethics Resource Center's National Business Ethics Survey shows that 79 percent of employees feel that ethics are important and influence their decision to stay with an employer. They tend to care more for product quality and

IN FOCUS... ETHICS AND NATIONAL ECONOMIES

The use of ethical business practices positively affects a nation's economy. Nations with many trust-based organizations tend to have lower levels of corruption and offer citizens a higher quality of life. Trust is essential for the proper functioning of business; when trust is evident customers, employees, and investors experience higher levels of efficiency and productivity. In contrast, when trust is absent, corruption or excessive regulatory red tape, or both, may take its place. It has been argued that in economies where trust is high, people can organize and associate with others freely; under these conditions, large corporations can thrive. In low-trust economies, businesses tend to be smaller, family-owned, and run by family members rather than professional managers.

CASE STUDY

The Enron scandal
Established in 1985, the Enron Corporation grew into a huge power, paper, and communications provider, and was hailed by *Fortune* magazine as America's most innovative company. Yet in 2001, Enron was found to be loaded with debt and had no immediate hope of paying off its creditors. This debt was hidden from the public through accounting fraud and other deceptive practices. Thousands of Enron employees had their retirement savings in Enron stock, which plummeted after the scandal was revealed. Ethical misconduct was directly responsible for the sudden downfall of this once powerful organization.

success when they think the business can be trusted. Employees who are satisfied with their organization's ethics system are much more likely to exceed performance expectations, be more receptive to changes in the marketplace, and be more dedicated to the customers. They focus on creating long-term relationships with customers, which increases customer satisfaction and encourages repeat purchases. An ethical environment fosters mutual trust, leading to better relationships. Team members who trust one another are more likely to make decisions faster and more efficiently.

TIP

EMPHASIZE ETHICS

Boost morale by putting ethics into the workplace; your employees will benefit from the positive feeling that they are contributing to a fair organization.

Attracting loyalty

Studies have consistently proven that a strong ethical culture inspires loyalty from customers if other factors, such as product quality and price, are equal, and so is a real source of competitive advantage. Strong ethics also serve to attract and reassure investors: acts of ethical misconduct, which can cause stocks to plummet and damage corporate reputation, are less likely to occur in an organization that is effective in managing risks; and investors increasingly care about putting their money into companies that demonstrably care about society. The long-term result of meeting your ethical responsibilities is improved financial performance.

Recognizing the risks

While good ethical practice has clear benefits for a business's bottom line, poor standards can result in a downward spiral. As the public's trust for a business declines, consumers begin to look elsewhere for the products they need and in some cases may even start negative campaigns against, and organized boycotts of, the business.

Once a consumer's trust in a business is broken, it may take years to repair, and distrust may spread far beyond the culprit. When one business commits ethical misconduct, others in the industry are suspected simply by association. So remember, ethical misconduct does not just affect you: it creates a domino effect that can involve a whole sector.

Resisting the pressures

Despite potentially serious consequences, many employees still commit ethical violations, and misconduct is not just limited to middle- and lower-level staff. Nearly 30 percent of employees in one poll said that they had felt pressured in the past by upper-level management to commit an act they knew to be wrong. Even those with good personal ethics are often unprepared to handle the types of ethical issues businesses tend to face. As a manager, it is up to you to provide a greater focus on business ethics to suppress this negative behavior. Not only will it prepare employees for ethical issues before they happen, but it will also help them to resist the pressures to commit misconduct.

Rising to the challenges

Determining the risks for your business and developing systems to manage these risks is not an easy task. In addition to qualities such as honesty and fairness, business ethics include issues such as product quality, safety features, and pricing—all of which vary depending on the organization. Ethical issues may be viewed very differently by different people, so it is important to create codes of ethics to which employees can refer rather than depending upon individual decisions that do not necessarily reflect the company's values.

Employees, especially new recruits, may not be familiar with industry standards, such as product quality or pricing, and their personal morals are unlikely to encompass ethics particular to a certain industry or job. As a result, an ethical employee can violate ethical business standards without intending to. This is why training is essential.

PROMOTING ETHICS

FAST TRACK	OFF TRACK
Establishing solid and specific ethical standards for the business to follow	Establishing vague ethical standards that may be hard to interpret
Creating a comfortable ethical environment for employees	Failing to familiarize employees with standards specific to the industry
Providing training in organizational ethics for all employees	Limiting organizational ethics training to certain employees
Making your ethics systems known to consumers	Assuming that employees will always apply your ethical standards

Looking beyond borders

When you engage in business with organizations outside your home country, you will encounter different systems, which may bring your ethical policies, and your views of what is right or wrong, into conflict with local laws and customs. Conversely, some practices that are illegal in your home country may be legal elsewhere, posing further ethical questions.

TIP

KNOW THE LAW

Take legal advice before offering any type of gift to a business partner: bribery almost always violates the law in the country where it takes place, and penalties can be steep.

Recognizing dilemmas

In a global environment, how applicable are your ethical standards when they are at odds with cultural norms and expectations? For example, in some Middle Eastern countries, it is a common belief that women do not belong in business, and Middle Eastern companies may refuse to do business with female representatives. Should your organization employ only male representatives to negotiate with Middle Eastern businessmen? Does this constitute discrimination against its female workers?

Using sweeteners

In some countries, bribing officials to obtain permissions—for planning or export, for example—is expected and it may be near impossible to do business without bribery. This makes bribery a controversial issue in terms of ethics. The legality of a bribe you pay depends on the country where your company is based; if you are from the US, you may have committed a felony, but if you are from one of several European countries, your bribe may actually be tax deductible. Beware, too, that gifts may be interpreted as bribes in some countries, while in others the exchange of gifts is an accepted and even necessary part of a business relationship.

Price and quality

Ethical uncertainty surrounds the issue of manipulating the prices of goods and services in different countries—price fixing and price discrimination.

Price fixing, which is the deliberate standardization of prices for goods or services, is not allowed in many countries, but multinational companies may operate in territories where the practice is not illegal and where the temptation to elevate and set prices with their competitors is high—especially if everyone else is doing so. Price discrimination occurs when organizations charge certain customers, such as those in other countries, much inflated prices for their products or dump products at low prices to drive competitors out of business.

Global organizations also face ethical dilemmas when it comes to product safety. Some products are illegal in certain countries because they contravene very strict safety standards. Should you sell these "unsafe" products to countries that lack such strict standards? The advantages may well offset the ethical risks. For example, some inexpensive pesticides with harmful properties are banned in developed countries but legal in developing countries.

Attitudes toward gift giving

Chapter 2

Recognizing ethical issues

You can't manage what you don't understand. Knowing the nature of ethical risks, and identifying those that are most likely to affect your organization, is central to any successful ethical management policy.

Developing your radar

The business environment is characterized by change, and one new decision in an organization, or one new development in an industry, can change the ethical landscape. The first step of ethical decision-making is, therefore, being able to anticipate and identify an ethical issue.

Defining organizational values

Ethical issues can be hard to classify. Values such as fairness and truthfulness are subject to differing interpretations. Therefore, an understanding of what these concepts mean within the context of an organization is important when providing a foundation for ethical decision-making. How these values are expressed in particular areas, such as abusive behavior, conflicts of interest, bribery, discrimination, sexual harassment, fraud, environmental misconduct, intellectual property rights, and privacy issues, is explored in this chapter.

Overcoming issues

Ethical issues arise when values clash. Conflicts occur on several levels: between organizational values and those of individuals; between organizational values and objectives; or between societal, industry, and regulatory objectives.

Conflict is almost assured if individuals within an organization do not share common concerns about issues and hold common ethical objectives. You cannot expect employees to achieve good organizational ethics simply by relying on their own personal values. What is required is a shared sense of ethical intensity—a term used to describe the importance of an ethical issue in the eyes of individuals, work groups, and/or organizations. Intensity is influenced by the values and needs of the individual making the decision; the characteristics of the situation; and the personal pressures accompanying the decision. The shared perception of ethical intensity requires an understanding of organizational culture, regulatory requirements, and industry standards, and these rules may be complex, requiring guidance and experience. Managers and all employees should be empowered to recognize and respond to the earliest signs of misconduct and a system of reporting must be in place to alert managers to issues that develop.

Spotting the signals of ethical conflict

Facing up to your fears

As a manager, it is your responsibility to uncover and assess the activities most likely to be of risk to your business. While many organizations focus attention on the risk from disasters, such as fires, floods, power failures, and data loss, risk associated with ethical misconduct is often ignored.

For many leaders, the fear of discovering misconduct within their organization is paralyzing, and too many simply duck and hide when there is a concern that misconduct has occurred. Some fear that critics, competitors, and stakeholders will use the information to undermine the firm's reputation. They take the stance that if nothing is discovered, then nothing will ever go wrong. This could not be further from the truth.

Discovering ethical issues as early as possible is highly desirable, but no matter how well prepared you are, you are likely to face dilemmas and misconduct at some point, so you also need a plan for response and recovery.

TIP

CATCH ISSUES EARLY

Introduce transparency and openness when dealing with ethical issues. If resolved in their early stages, most ethical dilemmas will not result in a crisis.

IN FOCUS... THE IMPORTANCE OF YOUR REPUTATION

Reputation is more important than ever in today's business environment because of the speed at which news travels and the rate at which an organization's image can be damaged. For this reason, many organizations are choosing to manage actively how they are perceived by the public. This function is known as reputation management. It requires the organization to take into account identity, image, and performance. Identity is how the organization is perceived by its stakeholders. For example, all organizations want to appear trustworthy and valuable. Image is the impression that stakeholders possess of the organization and its actions. Performance involves the organization's and the stakeholders' measurement of reputation objectives. In order to establish a positive reputation, there should be as few gaps as possible between objectives, identity, and image.

Most common types of ethical misconduct reported in organizations

- Placing one's own interests over organizational ones
- Discrimination on the basis of race, color, gender, age, etc.
- Misreporting hours worked
- Misuse of confidential information
- Alteration of financial records
- Internet abuse
- Theft
- Offering inducements
- Abusive or intimidating behavior toward employees
- Provision of low-quality goods and services
- Using competitors' inside information
- Environmental violations
- Alteration of documents
- Lying to stakeholders
- Safety violations
- Sexual harassment
- Lying to employees

Handling conflicts of interest

Within any organization, individuals in a position of trust are sometimes faced with a situation in which their professional objectivity conflicts with personal or other interests. In this event, ethical misconduct is a real danger; a good ethical policy includes measures to avoid or at least minimize the occurrence of conflicts of interest.

TIP

THINK AHEAD

Always award contracts on merit alone and avoid favors to family and friends. If you run a small business, think about how your actions now may be perceived if you choose to expand and seek investors. All your dealings with family members will be closely scrutinized.

Seeing the pitfalls

According to the Ethics Resource Center, conflicts of interest comprise 18 percent of all cases of observed employee misconduct, reflecting the real difficulty in keeping personal interests detached from professional responsibilities. As a manager, you should always exercise objectivity and avoid favoritism in your judgments. If you feel like your objectivity is compromised, seek the counsel of a third party.

Conflicts of interest among boards of directors can have devastating effects. Directors have privileged information about the stock market that can lead to insider trading; they have control over compensation packages and knowledge of investments and business ventures; and they may serve on the board of more than one company. For some, the temptation to neglect their stakeholder duties in exchange for personal gain is too great.

Following several scandals in the early 21st century, such as the multibillion dollar accounting fraud at US telecom giant WorldCom, legislation was passed to address conflicts of interest. The Sarbanes-Oxley Act, enacted in the US in 2002, laid down regulations for all US public companies and accounting firms. Under the Act, directors face increased liability for their decisions: although they cannot be held liable if they exercise due care in their decision-making, they may be held responsible for actions not committed in good faith.

Respecting regulation

The Sarbanes-Oxley Act helps to prevent conflicts of interest, improves investor confidence, and ensures that organizations produce more accurate financial statements. Its provisions include that:

• An Accounting Oversight Board be established and placed in charge of regulations administered by the Securities and Exchange Commission.
• CEOs and CFOs certify that their companies' financial statements are true and without misleading statements.
• Corporations be prohibited from making or offering loans to officers and board members.
• Codes of ethics be put in place for senior financial officers.
• Accounting firms be prohibited from providing both auditing and consulting services to the same client.
• Company attorneys be required to report wrong-doing to top managers and, if necessary, to the board of directors; if managers and directors fail to respond to reports of wrong-doing, the attorney should stop representing the company.
• "Whistle-blower protection" for persons who disclose wrong-doing to authorities must be in place.
• Financial securities analysts be required to certify that their recommendations are based on objective reports.
• Accounting firms rotate individual auditors from one account to another from time to time: two senior auditors cannot work on a corporation's account for more than five years.
• Audit committees should consist of independent members with no material interests in the company.

While the Sarbanes-Oxley Act continues to be a powerful tool in regulating organizational ethics, it has its detractors. Some claim that its very power makes businesses think twice before listing on US stock exchanges rather than less regulated exchanges in Europe.

HOW TO... AVOID CONFLICTS OF INTEREST

Remove all potential for conflict of interest before it occurs.

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Abstain from participating in any decisions in which conflict exists.

↓

Disclose any conflicts of interest to the board or the public.

↓

Involve third parties to assert that a decision is fair and free from partiality.

Abusive behavior

Abusive or intimidating behavior is one of the most common ethical problems encountered by employees. Bullying is a kind of abusive behavior that can cause serious disruptions to an employee's life and to productivity. Many employees feel they have no recourse against the bully because the majority of workplace bullies are in superior positions.

TIP

BE COMMITTED

Keep your nerve and determination when dealing with abusive behavior. Senior management may shy away from cases because they tend to be long and drawn out, hard to prove, and may damage the reputation of the whole organization.

Recognizing abuse

What is considered abusive varies from person to person. Abusive behavior can mean anything from physical threats, false accusations, profanity, insults, yelling, or harshness, to ignoring someone and unreasonableness. In today's business environment, where working with different cultural groups is the norm, definitions are further complicated by varied meanings of words across ages and cultures. Therefore, a key consideration when analyzing a potential abuse case is intent—was the person concerned striving to harm, or merely clumsy in their communication?

Dealing with abuse

In the past, employees have often been afraid to report abuse because they feared repercussions, such as being fired, but today many organizations are devising safe ways for employees to come forward. Some businesses use suggestion boxes or have telephone hotlines where an employee can report instances of abuse anonymously; others have set up ethics committees, staffed with people trained to deal with situations of employer misconduct. It is important to make employees feel safe so that they will be willing to report workplace misconduct.

Identifying bullies

Bullying is a kind of abusive behavior where a person or a group is targeted, threatened, harassed, belittled, verbally abused, or heavily criticized. It can use a mix of verbal, nonverbal, and manipulative or threatening expressions that damage workplace productivity. The bully's motive is usually to conceal or divert from his or her own incompetence, and they will often project their inadequacies on to their staff.

Bullying is often a serial behavior and frequently results in serious psychological damage to the target and poor performance of the team. The presence of a bully is often betrayed by symptoms in a team such as a high turnover of staff, above average absenteeism, high stress levels, and the spread of bullying behavior to other members as they attempt to meet the bully's requirements. Bullying can occur on an organizational level, where a company forces employees to agree to unreasonable terms or imposes intrusive controls, such as spot checks and monitoring of emails and phone conversations. Companies may also be guilty of bullying by, for example, making unreasonable demands of suppliers in an abusive or threatening manner.

TIP

DIG DEEPER

Investigate thoroughly if you are faced with a case of alleged bullying. Senior employees may be covering up a bully's activities to protect their own reputation.

ASK YOURSELF... DO YOU HAVE A WORKPLACE BULLY?

- Does he/she spread rumors to damage the reputation of others?
- Does he/she flaunt status or authority to take advantage of others?
- Does he/she discredit others' ideas and opinions?
- Does he/she fail to communicate or return communications from others?
- Does he/she use insults and shout?
- Does he/she take credit for others' work or ideas?

Avoiding discrimination

Discrimination on the basis of race, religion, gender, sexual orientation, disability, age, or national origin is illegal in many countries, but it remains a contentious problem, especially in the context of the mass migration of people in the 21st century. The best way to deal with discrimination is to be proactive by encouraging knowledge and promoting diversity, rather than relying on legal mechanisms.

Defining discrimination

Giving one person worse treatment than another owing to their color, ethnicity, sex, age, political allegiance, or other attributes is called direct discrimination. Indirect discrimination involves apparently treating everyone equally, but in a manner that results in unfairness to a specific group of people. An example is failing to provide wheelchair ramps in an office, so excluding people with disabilities from the workplace. In many countries, it is unlawful to discriminate even if that was not your intention; for example, providing conditions that favor male employees over female may be against the law.

TIP

BE AWARE OF RELIGIOUS OBSERVANCES

Avoid the danger of religious discrimination by keeping a calendar of the main festivals throughout the year. Don't schedule important meetings or training during festivals.

The role of the law

Most lawsuits brought by employees against their employers relate to some form of discrimination. However, the law has proved not to be a very effective weapon against discrimination. Employees do not often win such cases, partly because they are hard to prove, and may indeed end up worse off, without a job and without good references. Decades of anti-discrimination actions in the courts have had, at best, a moderate impact on the diversity of executives and senior managers, especially in the private sector.

Managing diversity

Perhaps the best way to combat the ethical risks associated with discrimination is actively to manage diversity. Many companies are implementing affirmative-action hiring programs. These help corporations recruit employees from a wide variety of backgrounds. The employees have a better understanding of the needs of an increasingly diverse customer and stakeholder base, and many such programs have a positive effect not only on ethical management, but on company performance and profits.

HOW TO... REDUCE WORKPLACE DISCRIMINATION

Write an antidiscrimination policy consistent with local law and distribute this to all employees.

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Provide training on diversity awareness; knowledge will prevent abuses.

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Set up a structure through which instances of discrimination may be reported.

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Take all complaints of discrimination seriously, and give the job of investigating to an impartial, senior staff member.

↓

Carefully make and keep written records of all investigations.

↓

Do not discourage employees from seeking help from outside agencies.

Interpersonal relationships

Inappropriate relationships in the workplace can pose ethical hazards. At one extreme, sexual harassment* can result in huge costs in lawsuits and damaged reputations, but there are also risks associated with consensual relationships that may affect professional judgment.

Recognizing harassment

***Sexual harassment** *—behavior characterized by unwanted sexual advances by one individual upon another.*

Sexual harassment can manifest itself as unwanted physical approaches, such as touching, or repeated unwelcome, degrading, or sexist remarks directed toward another person. It may be verbal, written, or graphic, and some nonverbal behaviors, such as gestures or staring, may also be interpreted as harassment. Depending on circumstance, people may view such behaviors as anything from a nuisance to the basis for a lawsuit. Sexual harassment is hard to measure and tough to prove, but there are three conditions that suggest that it has taken place:

- The actions are severe or repetitive; a single incident is unlikely to be viewed as harassment.
- The victim's position at work is impacted by the behavior. For example, if someone is denied progress, or given a poor review because they have

IN FOCUS... DUAL RELATIONSHIPS

It is neither desirable nor possible to stop employees from forming and ending relationships with co-workers. However, you should be aware of the ethical risks of such situations. A dual relationship—business and romantic with one individual—is not unethical in itself, but may lead to conflicts of interest and discontent in the rest of the team if favoritism is suspected. Individuals in a relationship with a subordinate should transfer their responsibilities for performance assessments to another manager. Senior staff should notify their employers if they begin relationships with members of the company to head off ethical difficulties.

rejected an advance, that points to sexual harassment. The same goes even if the conduct does not cause economic harm—it is enough that it interferes with your ability to carry out your work or creates an intimidating work environment.

• The conduct is of a sort that any reasonable person would take offense to it.

TIP

TRAIN FOR COMPLIANCE

Consider setting up a training program to address the issue of harassment. This could give examples of what constitutes sexual harassment, outline grievance procedures and explain how to use them, and set out the penalties.

Taking measures

Many countries have laws that address sexual harassment. As a manager, you should be aware of legislation, recognize harassment early, and take appropriate measures to keep it from happening. At the very least, you should ensure that employees are aware of the definition of harassment and appoint a member of the senior team to act as a point of contact for anyone who has concerns.

RESPONDING TO SEXUAL HARASSMENT

FAST TRACK	OFF TRACK
Telling the harasser exactly what you find to be offensive	Feeling guilty or blaming yourself for the harasser's behavior
Informing the harasser that his or her behavior is upsetting you	Ignoring the offensive behavior
Telling your line manager what you want or do not want to happen	Trying to deal with serious harassment by yourself
Keeping accurate records of serial harassment	Ignoring the organization's grievance procedure

Protecting private data

Organizations are increasingly collecting personal information on their customers to better understand their markets. This data must be carefully managed to protect the privacy of the individual customers and also to safeguard this potentially valuable information for the benefit of the organization that has gathered it.

Managing personal data

***Corporate intelligence**—*information gathered by an organization with the goal of monitoring changes and identifying opportunities. This data can include information on customers, as well as on markets, political trends, competition, or new technologies.*

Privacy is a big concern in global business today, and perhaps one of the most difficult to manage. Businesses use technology to collect information about their customers, and maintain huge databases of corporate intelligence* information. Many organizations sell their products over the internet, requiring their customers to reveal information, such as credit card numbers, social security numbers, and other personal data. Websites can track the types of purchases consumers make, and some companies even have the technology to track the geographical location of consumers.

Understanding the issues

***Identity theft**—*using someone else's personal information to assume their identity, for financial gain.*

The ready availability of information raises a number of ethical concerns, and consumers are increasingly worried about the security of their data. Information can be collected on the internet with or without a person's knowledge. The internet makes it easy for businesses to share or sell information to other parties. Even worse, the online collection of personal information enables computer hackers to gain access to the consumer's personal details, laying them open to identity theft*—a crime that is resulting in billions of dollars of losses worldwide.

Taking steps

Laws have been created to help protect individuals' privacy with respect to personal data. In Europe, the European Union Directive on Data Protection requires organizations that collect personal information to explain how that information will be used and receive the individual's permission first. The US has no overall law: instead, each business sector tends to have its own data protection legislation. Many major organizations around the world have responded by putting policies in place to address the protection of information. Some reveal their policies in privacy statements that consumers can access.

Setting your policy

Consider how your organization deals with personal data, and if appropriate, take steps to ensure that you are managing your customers' private data responsibly. Some nonprofit organizations offer accreditation, which can give customers confidence in your privacy policies. BBOnline, for example, provides a "seal" that businesses can display on their websites to show that they meet certain standards in protecting consumer privacy.

HOW TO...
MANAGE PRIVATE INFORMATION

Ensure board/senior management buy-in.

↓

Appoint a project manager.

↓

Determine precisely why you collect, use, and/or distribute personal information.

↓

Review the information you currently have.

↓

Review the methods used by your business to collect personal information.

↓

Keep records of why you have collected the information and the consent to do so.

↓

Appoint a privacy officer.

↓

Develop a firm-wide privacy policy.

↓

Train your staff in data security.

↓

Ensure personal information is secure.

↓

Ensure your third parties and vendors comply with privacy legislation.

Protecting your trade secrets

You should also protect corporate intelligence for the benefit of the business; this is information that could potentially give your organization competitive advantage in its market. With the growth of Internet technology and local networks, trade secrets have come increasingly under threat. Computer hackers break into computer systems to access company trade secrets and use them for their own gain. Hackers also use a technique called social engineering, in which they use tricks to discover people's passwords. Some hackers use a direct approach, watching over people's shoulders as they type in their passwords. Other hackers gain enough personal information about a person to guess his or her password. Some hackers even go so far as to look through a company's waste to find information that reveals trade secrets. Hackers can also break into wireless networks to access information, or can eavesdrop on trade secrets by recording and then decoding a fax machine.

Businesses must therefore take extra precautions to make sure their trade secrets are secure. There are five key steps that you can take to help protect your corporate intelligence and keep your trade secrets secret.

5 REINFORCE ACCOUNTABILITY
Hold individuals responsible for any problems (such as confidentiality leaks). Take disciplinary action against any employees who violate their responsibilities.

4 COMMUNICATE THE CHANGES
Share information with employees and make certain they know exactly who is accountable for what, and what their responsibilities are in protecting valuable company information.

Five steps to protecting your corporate intelligence

1 CALCULATE THE RISK

Consider whether the information you are collecting and using is crucial for your organization's activity. Would losing the information, even for the briefest period, be harmful to your organization? Is the information restricted or sensitive?

2 DEFINE PROCEDURES

Apply policies that define procedures for system failures or threats to and breaches of security. Create a confidentiality agreement to be signed by all workers that includes information on disclosure practices, data use, and employee responsibility.

3 IMPLEMENT ACCESS CONTROLS

Put in place processes that restrict physical or electronic access to sensitive information, such as passwords or firewalls. Use shredders to destroy sensitive documents that you do not need to keep.

Dealing with dishonesty

Lying and dishonesty in all forms—be it giving false information in company financial records, dishonest behavior or theft by employees, or false or misleading marketing and advertising—can be extremely damaging to an organization. Even if the organization is not prosecuted for its actions, its reputation can be destroyed if it is found to be participating in dishonest practices.

Being alert to fraud

It has been suggested that in times of economic downturns fraudulent behavior increases. Even in the good times, however, it is important for every manager to understand what constitutes fraudulent and dishonest behavior, how they can protect themselves from being a victim of it, and how they can avoid participation in any activities that could be considered fraudulent or lead to fraud*.

***Fraud**—*any untrue statement or form of communication that deceives, manipulates, or conceals facts to create a false impression that can damage others.*

Understanding financial fraud

Fraud in accounting and finance can destroy an organization. It typically involves providing incorrect information in financial reports that contain the key data about a company's financial health—data on which investors and others base their decisions. Providing inaccurate information in financial reports can lead to lawsuits and criminal charges, even if the errors were not intentional. Accounting fraud has frequently been a headline news topic in the 21st century, and as a result many countries have passed legislation to clamp down on the practice. However, there are a number of basic strategies you can use to minimize the risk of your organization participating in financial fraud:

TIP

STAY ALERT
Always check the accuracy and source of documents, and report any suspicions of improper behavior to a senior member of staff.

- Elect directors with financial experience in proportion to the size of the company.
- Clamp down on minor dishonesty to create a culture in which fraud is not tolerated.
- Avoid pressures that are likely to encourage fraud, such as unreasonably high sales targets.
- Implement an antifraud policy that sets out standards of behavior, and encourage employees to self-regulate under that policy.
- Provide training for all employees, so that everyone within your organization is clear about what could lead to fraud.
- Conduct regular internal audits.

Detecting employee fraud

Every manager must be vigilant for dishonest and fraudulent behavior among employees. This can include stealing money or products, taking office supplies, expense account manipulation, and claiming overtime when they haven't worked extra hours.

Theft by employees is an extremely serious issue, costing businesses billions each year, and in the worst cases, even causing bankruptcy. Studies have shown that 79 percent of people steal or are tempted to steal from their employers. Stolen items may range from something as small as paper clips to something as serious as computer software. Sometimes, employees steal copyrighted materials and pass them off as their own.

Employees of all levels are tempted to commit theft; although upper-level managers are not as likely to steal, they have access to more valuable items, and so could potentially cause significantly more damage to the organization. Rarely is theft committed by employees as a result of material need. More often, workplace items are stolen in an attempt to get a thrill or because of greed.

HOW TO... MINIMIZE THE RISK OF THEFT

Do background checks on new employees for problems in previous jobs.

↓

Monitor expense accounts and resources that could be taken.

↓

Encourage employees to report workplace theft they witness.

↓

Consider surveillance cameras for serious problems.

Selling ethically

Marketing is the process of creating, distributing, promoting, and pricing products. Fraud can become a problem when marketing communications, such as advertising, are false or misleading. This is a serious issue because, even if committed accidentally, it can destroy customers' trust in a company—trust that the company may never be able to regain.

Avoiding fraudulent advertising

Deceptive sales practices include providing inaccurate information about your product or misinformation about a competitor's product, so it is very important to be sure of your facts before you devise your marketing strategy. What makes an advertisement fraudulent—or capable of being proved so in court—is not always crystal clear. There is a widespread, difficult-to-define problem called puffery, which involves exaggerations of the truth that no reasonable buyer would find reliable or take seriously. For example, pizzerias frequently advertise that they have the "world's best pizza." This claim has been made so many times, and can in no way be proven because of its subjectivity, that a reasonable person would not believe it. Puffery also includes the use of words such as "natural" to imply that a food is healthy when its health benefits are, in fact, dubious.

Knowing the types

There are two main types of advertising fraud: implied falsity and literally false advertising. Implied falsity is when an advertisement confuses or deceives the consumer. Advertising using implied falsity makes claims that are literally true, but are nevertheless misleading. For example, a company was accused of deceit after advertising that a line from sweaters was made partially from cashmere. The material was in fact made from recycled cashmere instead of virgin cashmere. The company admitted that its label was deceiving because it implied that the cashmere was virgin, but, since it was technically still cashmere, the company maintained that it was guilty only of implied falsity.

An implicitly false claim, while true at face value, needs qualification to prevent it from being misleading to consumers. Literally false advertisements can be divided into two subcategories:

- Establishment claims: advertisements that falsely cite a study to prove their claims
- Nonestablishment claims: advertisements that make claims that cannot be proven.

If one company markets an item as being "better" than another company's, it could be engaging in a nonestablishment claim. It would be near impossible to prove one item's superiority over another's because people have different ideas of what constitutes real "superiority."

It is often difficult to distinguish implied falsity from advertising that is literally false.

IN FOCUS... CONSUMER FRAUD

Organizations need to be aware of, and on the lookout for, consumer fraud, when a consumer tries to deceive a business for personal gain. This dishonest behavior can be very costly to an organization, and comes in various guises:

- Shoplifting
- Switching price tags for ones from cheaper items
- Lying about age to get an age-related discount
- Collusion—when an employee assists the consumer in committing fraud, such as by giving large discounts to their friends
- Taking back used clothing to get a full discount
- Conspiring with the cashier to get an unwarranted discount.

Dishonest customers typically know the difference between right and wrong, but intentionally use tricks to cheat an organization.

Avoiding greenwashing

"Green" products and "sustainable" business practices are the new buzzwords of the 21st century; but before you make these claims for your own company, you must be sure that they are justified. Consumers are becoming increasingly aware of false claims, or "greenwashing*."

***Greenwashing**—*to mislead consumers purposefully about the environmental benefits of a product or the environmental practices of a company.*

Defining the issue

Environmentally friendly products are more popular today than ever before. In the US alone, consumers spend more than $25 billion annually on products sold on their natural or organic credentials. However, as going green has become popular and profitable, more companies have sought to jump on the bandwagon without really changing their environmentally unsound ways. Greenwashing is an unethical, and fundamentally dangerous, practice; consumers have become very savvy about assessing green claims, and will neither forgive nor forget those companies that betray their trust.

ASK YOURSELF... ARE YOU GREENWASHING?

- Are you selling a product on the basis of its environmental benefits in one area, while ignoring the negative impacts it has in others?
- Can you back up your claim with independent research?
- Do the claims you make really mean anything?
- Are the green claims you make actually true of all products in the category?
- Are you taking credit for a product's specification or performance, which is in any case mandated by law?
- Are you making claims that try to "green" a product in a product category that is not inherently green?

Avoiding risks

When you describe a product or service as "green," "sustainable," or "environmentally friendly," be sure that you can substantiate the claim with specific details and research. Beware of using words in your marketing materials that do not have a clear definition: "eco," "natural," "biodegradable," and "recyclable" are all likely to attract the scrutiny of consumers, and of a number of bodies dedicated to exposing greenwashing.

Today's educated consumers are looking for a real commitment to sustainability, so avoid one-time "green" programs unless they are truly representative of your company's values. Above all, reach out to your customers and stakeholders. Get their opinions on how you can change your practices to become "greener," and what they consider to be sustainable.

Working to standards

In an attempt to reduce the prevalence of greenwashing and to restore consumer faith in businesses' claims, some organizations have developed certifications to validate and support "green" claims made by companies. One such organization is the Carbon Trust, a UK-based group that works with other organizations to help reduce their carbon emissions. Carbon Trust has developed a green standard that it issues to companies to prove they have reduced their carbon output. The standard does not accept carbon trading as sufficient, as this too has been used as a means of greenwashing. Not only do the companies have to reduce their emissions, they have to continue to reduce them every successive year.

Chapter 3

Implementing an ethics program

To set up and manage an effective ethics program you must start with a clear understanding of the factors that influence ethical decisions in your organization, then enshrine agreed upon principles and values into an enforceable code of conduct.

Setting the context

How are ethical decisions made within your organization? What factors and what people exert an influence on outcomes, and can the process be improved? Answering these questions will help you set a robust framework for ethical decision-making.

Making decisions

All ethical decisions are made within the context of the needs and expectations of stakeholders, the culture of the organization, and the values and drives of the individuals within it.

Stakeholders—your employees, suppliers, regulators, special-interest groups, communities, and the media—have a wide range of interests, concerns, and potential impacts. These need to be pinpointed, and the intensity, or importance, of each carefully assessed to ensure that your ethical framework accommodates decision-making in all key areas.

Culture and values

Organizational culture consists of the values, norms, and behaviors shared by the organization. It is a collective understanding about what is expected and accepted, and it defines the way decisions are made on a daily basis. In practice, internal culture may be at odds with the values stated in external communications, such as the corporate website; it may allow for, or even tacitly condone, unethical behavior that boosts profitability.

Most studies suggest that organizational factors are key in the workplace—ethical decisions are most strongly influenced by the internal culture and by co-workers, superiors, and subordinates. Indeed, employees are more likely to be guided by their co-workers' thoughts than by their personal values; but this does not mean that the role of an individual's personal moral philosophy can be ignored. Everyone has their own perception of right and wrong, shaped by factors such as education, nationality, age, and gender and this will to some extent influence the decisions they make.

The importance of individual factors varies with profession. For example, an environmental engineer working alone on a project has more opportunity to make an independent ethical judgment than a food retailer deciding whether or not to stock a particular brand of coffee; here the judgment is more likely to be made by a board or committee, with reference to predefined rules and regulations.

The influences on an ethical decision

Setting an ethical code

A successful business ethics program will seek to cultivate shared values within an organization and ensure that staff understand and commit to specific mandated conduct. Excellent leadership, strong communication, and training help achieve these ends.

Identifying principles and values

Before you can communicate your organization's ethical intent or formulate a code of conduct, you need to clarify your principles—those long-standing or "bedrock" beliefs that cannot be compromised—and your values. Starting with principles, develop rules that restrict outcomes and that employees must respect. A good place to start is by reviewing your company's mission statement, objectives, and past performance. Determine what they tell you about your ethical objectives, and identify the key ethical risks to your business.

TIP

BE DIRECT

Remember that the point of an ethical code is not to check a box, but to be helpful to your staff. Use language that is accessible to all and publish the code widely, on paper and electronically.

ASK YOURSELF... ABOUT ETHICAL RISKS

- Are operational procedures in place that help our employees to maintain ethical behavior?
- Do our employees ever have to break company rules to get work finished?
- Have we ever hidden company practices that would be embarrassing for the public to know about?
- Are any of our products or services described in a manner that could be considered misleading?
- Is there sufficient concern for the community in our company activities?
- Do our concerns about environmental impact address just the issues that we are legally required to consider?

The seven steps of an effective ethics program

1 Assessing risks and putting in place standards and codes of ethical conduct.

2 Providing high-level managerial oversight to ensure compliance with these standards (for example, the appointment of a dedicated ethics officer).

3 Taking due care not to place individuals with a propensity to engage in misconduct in a position of authority where they can influence others.

4 Using training programs to communicate the agreed upon standards to all employees.

5 Establishing systems to monitor conduct and allow employees to report abuses.

6 Enforcing standards, rewards, and punishments consistently across the company.

7 Constantly reviewing the system, and taking steps to revise and improve the way it works.

Supporting ethics

The most effective tool in guiding and developing an ethical organizational culture is your leadership. Managers set the ethical tone for an organization and develop the systems that identify ethical issues. They train and educate employees in how to deal with conflicts, they assign responsibility, and allow for open communication of concerns and questions.

Ethics in the workplace can also be supported by the consistent use of rewards and reprimands. Quite simply, employees are more likely to engage in conduct that earns them rewards and less likely to engage in behavior that results in punishments.

Supportive leaders use praise, recognition, and rewards such as bonuses, raises, promotions, and increased responsibility to encourage employees to display ethical behavior in the organization, and disincentives to discourage ethical breaches.

The past years have seen greater efforts by governments to legislate for good ethics. In the US, this involved corporate governance legislation that included the Sarbanes-Oxley Act and the revision of the Federal Sentencing Guidelines for Organizations (FSGO). The FSGO guidelines encourage companies to put in place effective ethics programs and set out steps that should be included in such programs.

IN FOCUS... WHERE TO LOOK FOR BREACHES IN ETHICAL CODES

Ethical misconduct is more likely to occur with junior and middle managers than with senior staff because the job security of lower ranking employees usually depends on hitting tight deadlines. There is a temptation to overlook unethical conduct if it means meeting immediate needs. Upper-level managers, in contrast, usually have more job security than middle managers, are more likely to consider long-term goals, and, so, are more likely to abide by the ethical culture.

Assembling the code

With a clear understanding of the ethical risks faced by your organization and how they could be avoided, you can begin to formulate an ethical code according to the following general guidelines:

- Ensure that upper-level management fully supports the code and will provide the necessary leadership to see it implemented: they are the individuals whose behavior the employees will follow.
- Clearly define the principles and values that lie behind the code.
- Make the code relevant, clear, and credible for employees.
- Make sure that the group that drafts the code is representative of all organizational functions.
- Have a large group of diverse stakeholders review the code, and seek appropriate feedback.

Once finalized, you should communicate the ethical code across the whole organization through effective training, and ensure that it is well supported by strong leadership and other checks and balances.

TIP

BE RELEVANT

Your ethical code should contain "must-dos," aspirations, and examples of typical dilemmas that could be faced by staff in your organization.

Leading ethically

Good leaders build, maintain, and revise the systems that support integrity in the workplace, but perhaps more importantly, they lead by example. They need to be knowledgeable and experienced in order to make good decisions that help create an ethical culture based on shared values and behaviors.

Understanding the role of leaders

***Corporate culture** —the mix of values, norms, behaviors, and artifacts (tangible signs) that help define an organization's character.

A leader's role is to guide and direct others toward the achievement of a goal. Leaders have the power and authority to motivate others and enforce the organization's rules and policies, as well as their own viewpoints, and so are key in directing an organization's corporate culture* and ethical stance. While most people think of the CEO as the most important leader within a company, the board of directors and mid-level managers play an important part as well.

Leading by example

Being an ethical leader is about far more than drafting, following, and implementing ethical codes. Through his or her actions, a good leader will promote an organizational culture that supports ethical conduct and reward employees for acting in ways that are consistent with the company's values and ethical standards. This culture will permeate every aspect of the business from its public image and how stakeholders are treated, to the nature of the products sold.

TIP

BE FORGIVING

When you lead an ethics-management program, it is likely to increase, at first, the number of ethical transgressions that arise. Be understanding when you deal with these issues; staff will look to you for support not censure.

Characterizing ethical leaders

Most strong, ethical leaders have certain characteristics in common. Developing these traits will help you to build an ethical corporate culture, loyal and happy employees, and a successful company.

- Ethical leaders have strong personal character; they possess robust principles that allow them to define a path and lead others along it.
- Ethical leaders have a passion for doing right—for their customers and their employees. Of course, they are not infallible, but they do necessarily begin with the right intentions.
- Ethical leaders recognize that good ethics are good for performance and lead to a healthy bottom line.
- Ethical leaders are proactive—they don't just follow policies but make and shape them. This often requires courage—for example, when proposing an unpopular new direction.
- Ethical leaders consider stakeholders' interests. They build trust across the board and profit from the loyalty that this inspires.
- Ethical leaders are positive role models in and out of the workplace. They match their talk about values with visible actions that demonstrate respect.

Monitoring the program

A successful ethics program must have measurable outcomes; and it needs to be flexible enough to be amended and improved. The function of managing the ethics program typically falls to senior managers or a dedicated ethics officer within the organization.

Measuring success

You can employ a range of tools to monitor and measure your organization's ethics program. These include: internal and external audits; surveys; staff questionnaires and anonymous reporting systems, such as online or telephone hotlines; open lines of communication between employees and supervisors; exit interviews with departing employees; and consistent rewards and punishments for ethical and unethical behavior, respectively. Continuous improvement efforts are key to the functioning of the best ethics programs, and should be a part of your program, too.

TIP

WIN CONTRACTS

Appoint an ethics officer, and you could open up new areas of business. Many governmental bodies will accept bids only from suppliers who have an ethics program managed by a person of high rank.

Appointing an ethics officer

If possible, identify a high-ranking manager within your organization to oversee compliance with your own and external standards. He or she should have good working knowledge of the ethical and legal standards expected within your industry. Some large organizations, especially those that are exposed to serious ethical risks (such as drug companies and military contractors) may well employ a dedicated ethics officer to perform this role. In some countries, companies above a certain size are legally required to have an ethics program and a named individual charged with its management.

The responsibilities

Ethics officers come from a range of backgrounds, such as finance, legal, IT, and human resources, but they are always people who can see value in ethical conduct, both to the business and to the wider community. Their responsibilities vary from one organization to another, but typically include:

- Assessing the risks that ethics programs must address
- Developing a code of conduct/ ethics, and updating it periodically
- Coordinating the ethics program with other company managers
- Holding training programs for employees
- Establishing a confidential service for answering employee questions or concerns about ethics
- Ensuring company compliance with government regulation
- Auditing ethical conduct and taking action on possible violations of the code
- Developing, modifying, and communicating ethical codes and training devices
- Monitoring changes in the workplace or industry environment and evaluating how they should impact on the organization's ethical position.

CHECKLIST YOUR ETHICAL HEALTH

	YES	NO
• Is there a general understanding of what is considered correct conduct in your organization?	☐	☐
• Do you feel that your organization has a culture that encourages openness between managers and employees?	☐	☐
• Are there rewards for employees who demonstrate appropriate ethical behavior?	☐	☐
• Do you feel that your employees know how to act ethically during crisis situations?	☐	☐
• Do employees in your organization treat your customers fairly and honestly?	☐	☐
• Do employees treat each other with respect and honesty?	☐	☐
• Are there role models in your organization who demonstrate ethical decision-making for lower-level employees?	☐	☐
• Have you ever given your employees constructive criticism on how to improve their ethical conduct or reprimanded them for unethical conduct?	☐	☐

Training in ethics

Training and communication programs for employees and stakeholders make organizational ethics transparent. You should view resources for such programs as an investment, not a cost, because they build trust and long-term relationships.

Setting out the goals

Even the most thorough training program cannot hope to cover every ethical issue that an employee may encounter. It should, however, equip staff with the confidence to make decisions in line with organizational standards. It should create awareness of key risk areas, inform employees of appropriate contacts for ethical issues, educate them about the rewards for ethical conduct and the consequences of unethical conduct, and set out the benefits to the whole organization of maintaining standards. You can deliver ethical training in a number of ways, each with its own advantages and challenges.

To help create a culture of openness in dealing with ethical issues.

To ensure employees and agents understand their ethical responsibility in the context of their job.

PROS AND CONS OF DIFFERENT TRAINING METHODS

DELIVERY	ADVANTAGES	DISADVANTAGES
Lectures and presentations	Reach a large number of people; quick to implement	Trainees are passive and do not experience multiple viewpoints
Case studies and scenarios	Generate discussion and participation	Can have too narrow a focus in the issues addressed
Role playing	Highly interactive and insightful	Some people may be unwilling to participate
Videos	Realism	Too specific and not participative
Computer training	Easy to implement and highly flexible	Limited opportunity for discussion and interaction

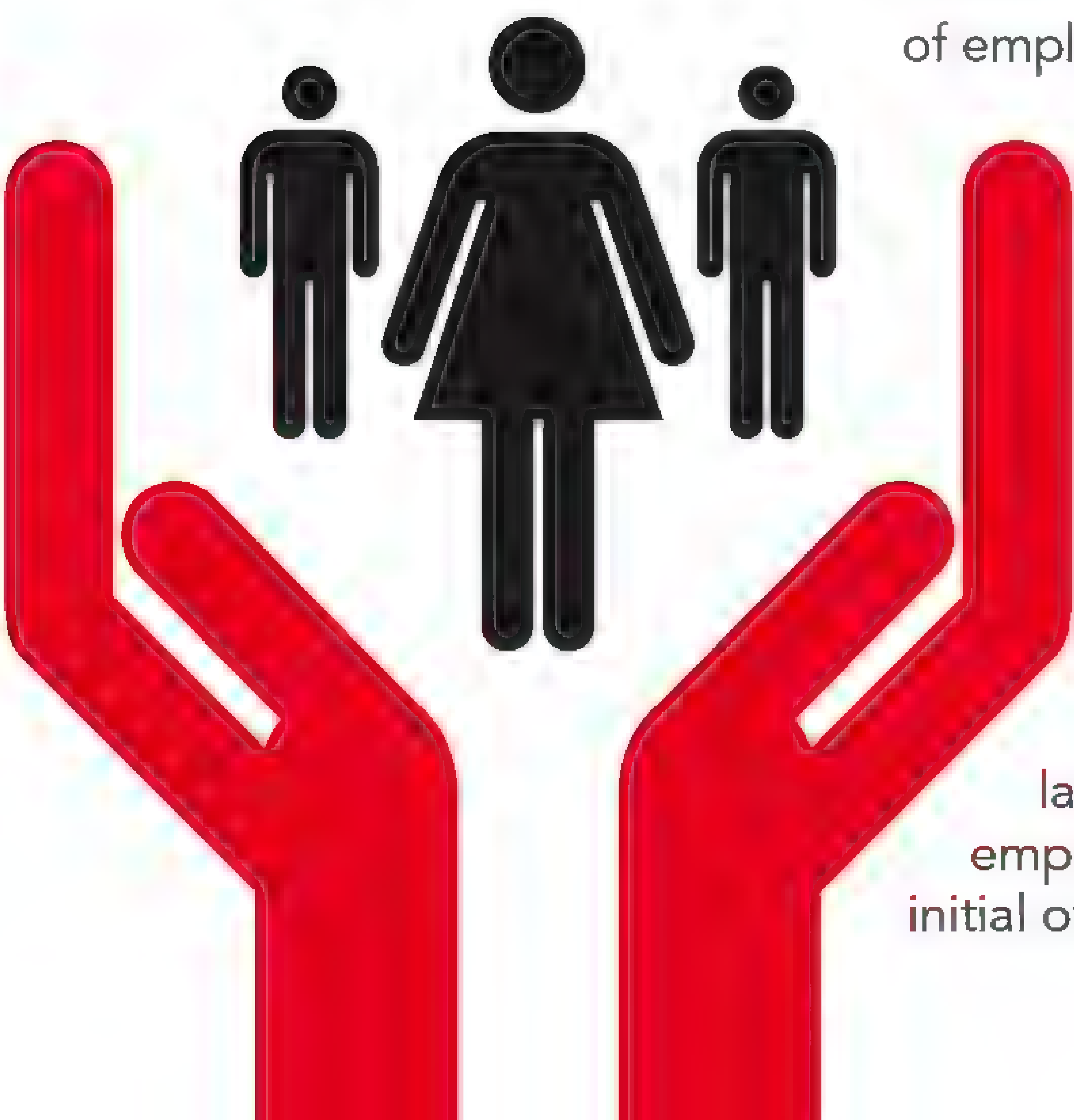

Benefits of training for an ethical destination
To communicate the organization's responsibilities and duties, and the need to be accountable and comply with standards.
To communicate organizational standards to employees.
To empower employees to make decisions based on organizational principles and ethical values.
To explain the organizational resources devoted to creating and maintaining ethical conduct.
To communicate an organization's areas of risk.
To encourage individuals to seek advice and information when unsure of the appropriate organizational response in a situation.
To set out the ethical issues that the organization is facing and to explain the business case for an ethics program.

Caring for your employees

Employee performance and satisfaction are of primary concern to an employer. The ethical treatment of staff, and their knowledge that they are working for an ethical company, have become increasingly important factors in the recruitment and retention of employees.

Understanding responsibilities

The employer–employee relationship has changed radically over the years. Before the 20th century, the employee served the employer and had few rights; but today, in an age of skills-shortages, the employee often behaves more like a consumer than a wage slave, selecting their employer on the basis of many criteria beyond just the salary they offer. Recent research has revealed that as many as one in six people rate an organization's attitude toward corporate social responsibility as the first or second most important factor in choosing an employer. More widely, individuals are increasingly identified with their job, so their choice of employer reflects their own values and lifestyle. To attract and retain employees, companies are having to rethink their offer, building good ethics and corporate citizenship into their brand. Failure to deliver on the declared ethical stance will result in increased labor turnover as employees realize that the initial offer was shallow.



Nurturing your staff

Shifting demographics mean that your organization's ethical reputation is set to become ever more important in the job market. As a good employer, you should take steps to recognize the aspirations and expectations of your team, and ensure that they are addressed. Simple measures include recycling more, planting trees to offset carbon output, and publishing your ethical policies. Consider offering volunteer programs and charitable donations as part of the employment package, alongside benefits such as flexible working and a clear career structure. Actively manage your reputation: most graduates gain their perception of a company's ethical standards through the media and are sceptical about what organizations state in their own published materials.

Another approach is to set up employee stock ownership plans that give staff a real financial stake in the company. A stock-ownership plan provides a clear expression of how much the firm values its employees, and organizations with such programs generally have lower turnover rates, higher employee satisfaction, and higher productivity levels. Moreover, companies with a high degree of employee ownership consistently outperform their conventionally owned rivals in pure financial terms.

TIP

KEEP YOUR REPUTATION

Maintain a proactive ethical policy toward your employees: disgruntled ex-staff are likely to go public with complaints about their treatment.

ASK YOURSELF... ARE YOU AN ETHICAL EMPLOYER?

- Are all team members treated with respect?
- Do you use objective measures to determine employees' status and reward?
- Are you scrupulously honest with your employees about benefits and job security?
- Do you know what motivates your employees?
- Do your staff have a chance to express their opinions?

Managing ethical crises

Instances of ethical misconduct still occur despite the best efforts of managers to implement policies and create an ethical culture. The way that you respond to an ethical crisis will determine the damage your organization sustains and the length of the recovery time.

TIP

HIRE A PROFESSIONAL

When faced with a crisis, consider engaging a professional corporate ethics consultant; he or she will see you as outsiders see you and cut through potentially inaccurate assumptions.

Avoiding crises

By far the best way to handle an ethical crisis is to avoid it in the first place. Companies with well-constructed and effectively communicated ethics policies are better protected against corporate crisis and reputation issues than companies who consider such measures a luxury. It is not enough just to have policies in place—you need to monitor them constantly and update them to match the shifting, and increasingly stringent, expectations of your various stakeholders.

Try to anticipate potential crises, and consider your responses in advance: what would you do, for example, if a hacker gained access to your computer network and stole sensitive customer details? Or if one of your products had to be recalled?

CASE STUDY

Learning from mistakes

In 1995, the campaigning organization Greenpeace protested vocally against the way that oil giant Shell UK chose to dispose of Brent Spar, a storage facility in the North Sea. Shell's failure to present its case to stakeholders eroded the company's well-founded reputation for environmental responsibility. However, Shell learned from the experience, and implemented major stakeholder dialogue programs, including a website where anyone could question Shell about its environmental standards, and an annual report of its activities in improving social and environmental conditions.

Acting decisively

If a crisis situation does arise, you need to act fast to preserve the organization's reputation. Acknowledge that the crisis exists, assign a team of specialists in all relevant areas to consult on actions, draw up and enact a crisis-management plan, and appoint a spokesperson to liaise with stakeholders and the media. If your organization is demonstrably at fault, accept responsibility and act promptly to compensate any injured parties. It is often in your best interests to exceed the minimum compensation; this shows that your organization cares about stakeholder interests.

Good communication is essential. Establish media contacts, rather than waiting for the media to approach you, and demonstrate that the organization is taking rapid action to resolve the situation. Failure to communicate strongly suggests that your company does not care or is trying to avoid blame.

COPING IN CRISIS

FAST TRACK	OFF TRACK
Staying calm	Panicking during the crisis
Being honest with the public about the situation	Trying to cover up facts
Accepting responsibility when at fault	Assigning blame to others
Looking at the situation from the stakeholders' perspectives	Focusing on internal politics and preoccupations
Communicating regularly with the public and media	Trying to keep a low profile

Chapter 4

Looking beyond your organization

There are, as yet, no universally agreed upon standards against which business behavior can be measured. However, industry bodies, think-tanks, and business theorists have all proposed ways of thinking beyond the bottom line.

Following standards

Just as there are industry standards for the quality and safety of products, so too have industry bodies developed standards for ethical behavior. These best-practice frameworks provide useful guidelines and give you the opportunity to benchmark your effectiveness against similar firms.

Using the frameworks

The Institute of Social and Ethical Accountability, the Open Compliance Ethics Group (OCEG), and the International Organization for Standardization (ISO) all provide frameworks for ethics accountability. The processes these organizations use tie social and ethical issues into an organization's strategic management and operations. This allows for a more holistic view of corporate responsibility, in which risk, opportunity, and the impact on economy and society are integrated into reporting systems alongside more traditional measures of financial success.

Setting guidelines

Launched in 1996, AccountAbility is a US-based nonprofit institute that brings together businesses, academics, and practitioners with the goal of advancing responsible business practices. The organization has set out, and is continuing to develop, a framework called AA1000, through which companies can improve the quality of their social auditing and set standards for accountability.

Another organization that provides accountability frameworks is the Open Compliance Ethics Group (OCEG). This US-based nonprofit organization has worked with over 100 companies to create a comprehensive best practice model for implementing, managing, and evaluating compliance and ethics programs. It documents legal requirements, standards, and principles from a variety of sources and provides practices that help an organization address these requirements. Importantly, the OCEG guidelines can be adapted to fit the specific needs and situations of individual companies.

Leading the way

The need for common standards led to the creation of the International Organization for Standardization (ISO), a body of representatives from many national standards organizations, based in Switzerland. Today, ISO is the largest publisher of international standards, many of which have been enshrined in law. The ISO 14,000 series provides environmental standards that help organizations create policies that promote sustainable business practices. Many believe that ISO 14,000 may be a key initiative for worldwide sustainability.

Defining the role of stakeholders

Stakeholders are the individuals or groups to which an organization is responsible. Internal stakeholders (such as employees, managers, and directors) need to understand and participate in ethical corporate culture. External stakeholders (such as communities, customers, suppliers, and shareholders) need to appreciate your organization's ethical principles and take part in upholding standards of conduct.

Characterizing stakeholders

Stakeholders fall into two groups: primary and secondary. Primary stakeholders are those necessary for a business's survival, including suppliers, employees, customers, and shareholders. Secondary stakeholders are those not immediately necessary for a firm's survival, including the media, special-interest groups, and trade associations.

Stakeholders can be classified using three criteria: power, legitimacy, and urgency. Power is a stakeholder's ability to influence the decisions of others. Primary stakeholders usually hold the most

ASK YOURSELF... ARE WE EFFECTIVELY ADDRESSING OUR STAKEHOLDERS' NEEDS?

- Have we identified secondary as well as primary stakeholders?
- Do we take time to listen to all stakeholder concerns?
- Do we have an effective way to gather data on stakeholder expectations?
- Do we take stakeholder complaints and desires seriously?
- Is the message we send to stakeholders consistent with our overall company objectives?
- Do we express our commitment towards meeting stakeholder needs?
- Are we communicating stakeholder needs at all levels of our organization?

power. Legitimacy is an assessment of which stakeholders matter the most. You should base this judgment on criteria that fit within boundaries of what is socially acceptable. If a stakeholder's claim does not seem legitimate, then his or her concerns are not likely to be taken seriously. Urgency refers to the time-sensitivity of stakeholder interactions—some require faster action than others.

Sometimes the concerns of secondary stakeholders become unusually powerful. For example, during a major crisis the media often becomes important to a company, thereby gaining power. What was once a secondary concern to the company has become an immediate one. Therefore, it is important that you anticipate and analyze the needs of both types of stakeholders in your organization.

Communicating effectively

Stakeholders can make or break an organization, so it is vitally important for you to manage them carefully by taking time to understand and address their concerns. Once you are aware of stakeholder agendas, you must work to communicate a clear, consistent message to them.

Communicating with the right stakeholders involves some preparation. You need to determine a stakeholder's concerns and their expectations of your organization, and then tailor your company messages to adequately address these needs. It is important to identify the best means of communication for your message—via your company website, annual report, or advertisements, for example—and make sure the message is consistent.

Effective stakeholder communication in crisis situations is particularly important. Although you will need to act quickly, it is vital that you are aware of the concerns of your stakeholders before you take action.

HOW TO... MANAGE STAKE-HOLDERS

Identify primary and secondary stakeholders.

↓

Use surveys, internet research, or focus groups to determine their interests and needs.

↓

Assess how your organization's activities impact each stakeholder.

↓

Communicate this information throughout your organization.

↓

Take action to address each stakeholder's requirements.

Accounting for your actions

The bottom line in a company's financial statement is the one that shows net income or loss—and was once considered to be the key indicator of an organization's success. But today, the term triple bottom line is increasingly heard in boardrooms of the world's biggest companies.

Defining the triple bottom line

The triple bottom line (TBL) is a measure—both in numbers and in words—of an organization's economic, environmental, and social performance. It gauges how well a company fulfills its responsibilities to all its stakeholders.

There are two good reasons to adopt TBL reporting. First, in today's world, companies are increasingly being brought to task for their wider activities and impacts—for the working conditions of their subcontractors abroad, for the obesity and poor health that their products may cause, and for the environmental hazards posed by their waste, for example. Investors are looking closely at these credentials and demanding evidence of good practice before committing their funds. Second, TBL can help your company reach new, ethically aware markets.

CASE STUDY

Great Lakes Brewing Company
Far-sighted companies have been using the TBL framework to drive policies in all areas of their activity. A good example of this is the Great Lakes Brewing Company of Cleveland, Ohio, which is a micro brewery making all-natural beer. The company prides itself on its commitment to the environment and to the community. It seeks to recycle and reuse the resources used in production and subscribes to the motto "Take, Make, Remake." As the company has worked to reduce environmentally harmful practices, it has been able to save money on operating costs. It also helps the community by donating funds to nonprofit organizations.

Measuring the triple bottom line

ECONOMIC PERFORMANCE

- Sales
- Profits
- Return on investment
- Taxes paid
- Customer satisfaction and retention
- Job creation
- Employee satisfaction and retention

ENVIRONMENTAL PERFORMANCE

- Resource use
- Energy use
- Waste-management practices
- Water and air quality
- Integrity of supply chain
- Compliance with standards

SOCIAL PERFORMANCE

- Labor practices
- Maintenance of human rights
- Impacts on the community
- Taking responsibility for products

Looking beyond profit

The Triple Bottom Line is not an award or a formal certification—it is a process that helps to keep you on track toward running a fairer business. It is still about making a profit, but profit that is in harmony with the principles of benefiting society and the environment.

When you adopt the TBL framework, you broaden the concept of financial performance beyond the traditional measures of profit and loss, to encompass the economic impact that your business has on society as a whole. Consider what economic benefits your business imparts to its host community by asking yourself questions such as:

- Do you pay fair wages and provide flexible working hours for your staff?
- Have you tried to level out glaring pay disparities in the organization?
- Do you try to source your raw materials locally?
- Have you negotiated fair contracts with your suppliers, and do you work with them to promote your standards?
- Do you support causes and charitable initiatives that resonate with the values of your customers?

CHECKLIST ASSESSING YOUR TRIPLE BOTTOM LINE

	YES	NO
• Do measures of your financial performance assess the economic impact on society?	☐	☐
• Do you have policies that focus on social responsibility and environmental impact?	☐	☐
• Does your organization go above minimum standards of compliance?	☐	☐
• Is there effective communication about the Triple Bottom Line throughout your organization?	☐	☐
• Does your company list the environment and the community among its stakeholders?	☐	☐

Thinking of the environment

To put the TBL model into practice, you should adopt a "cause no harm" approach to the environment. Actively seek to engage in sustainable business practices that will help to preserve the environment, such as reducing energy use and rethinking harmful manufacturing processes. If your business does have environmental impacts, you should accept that the costs of minimizing and mitigating the impacts lie with you, rather than with governments or other agencies. This shifts the burden of responsibility on to your organization, encouraging a more environmentally responsible approach to doing business.

TIP

CARRY OUT LIFE-CYCLE ANALYSIS

If your businesses is manufacturing, conduct a life-cycle assessment of your products. This will determine what the real environmental costs of production are, from gathering the raw materials, through manufacture to distribution to eventual disposal.

Boosting social performance

The final strand of the TBL model is social performance, a term that refers to the attitudes and actions that your business takes with respect to its workers, consumers, community, and other stakeholders. You need to recognize that the treatment of these groups is entwined with your business performance, and work to the benefit of all these constituents. Review the salaries you pay to ensure they are fair, take every care to maintain a safe work environment, and set realistic working hours.

Beyond your stakeholders, your TBL approach may include social investing initiatives to address healthcare, education, and economic opportunities for the wider community. "Upstreaming"—sharing of a proportion of your profits with the original producers of your raw materials, such as agricultural villages or farmers—is another way of boosting your performance. It can be hard to assess the level of your company's social responsibility: consider working with industry groups, such as the Open Compliance Ethics Group who can help you with ethics audits.

Checking your supply chain

Your stakeholders and the media will judge your organization not only by your ethical standards, but also by the behavior of all the businesses that supply you with goods and services. You should make yourself fully aware of their practices and reputations because you may be held responsible for their actions.

TIP

RIGHTS ISSUE

Before dealing with a new supplier, check if they allow trade unions to operate; a unionized workforce usually indicates respect for rights.

Identifying weakness

No matter how hard you try to steer your organization along an ethical path, you are only as strong as the weakest link in your supply chain; and your exposure to this risk is enhanced if you operate in retail or if you own a brand with a high public profile. A recent example involved toy company Mattel, which outsourced around 50 percent of its production to manufacturers in China. The discovery of lead paint on some of its product lines led to the recall of almost one million units, and a significant loss of both money and reputation for Mattel, despite the fact that the company required its subcontractors to use paint provided by certified suppliers.

CHECKLIST ASSURING YOUR SUPPLIERS' ETHICAL CREDENTIALS

	YES	NO
• Do they provide resources to support the community in which they operate?	☐	☐
• Do they make efforts to attract and retain a workforce that represents the varied background of the community within which they operate?	☐	☐
• Do they promote the protection and preservation of the health of the natural environment?	☐	☐
• Do they actively and demonstrably manage their ethical policies and business conduct?	☐	☐
• Do they have accurate financial reporting and risk-management systems in place?	☐	☐
• Do they work actively to minimize the occurrence of injury, danger, error, accident, harm, and loss?	☐	☐

Ensuring compliance

Developing and maintaining an ethical supply chain is no easy task: the standards you set for your suppliers must have teeth, but also be realistic, and they must work across cultural, language, and legal divides. Many companies have based their standards on independent principles, such as those set out by the International Labor Organization (ILO), but even having robust standards in place is no guarantee of compliance, simply because suppliers are more likely to conceal their lack of adherence to standards rather than risk losing their contract.

To obtain compliance, you need to work closely with all your suppliers. It is perfectly valid to select your supplier on purely commercial grounds, and then work with them to ensure compliance to your organization's ethical standards. Use training and education to instill in them a real appreciation of the dangers of ethical misdeeds. Make sure that they have the capacity to fulfill your orders while maintaining ethical oversight, and try to involve local regulation agencies who can help the suppliers stick to standards. Examine the purchasing practices in your own organization and identify any conflicts that may exist between ethical and commercial objectives.

Investing ethically

In the 21st century, ever more people are endorsing ethical organizations with their money. In the US alone, it is estimated that three-quarters of investors take ethical issues and an organization's conduct into consideration when deciding where to commit their funds.

Getting in tune

***Ethical investing**—*an investment strategy that attempts to balance financial return on investment and a positive impact for all stakeholders.*

Ethical investing* is a strategy that is being embraced by individuals, nonprofit organizations, governments, and corporations. As a manager, you have a responsibility both to ensure that your organization is attractive to potential investors, and that your own funds are managed in a way that does not have negative impacts on society.

Ethical investment was thrust on to the world stage in the 1970s and 1980s, when individuals and corporations refused to invest in South African companies because of the human rights abuses of apartheid. Today, many investors refuse to put their money into funds associated with unethical actions, no matter how lucrative the prospects, and conversely, will seek out investment opportunities with clear social benefit.

Seeing new opportunities

The idea of ethical investing varies by country, and depends on the cultural perceptions of companies and their practices. For example, Europeans are far more wary of genetically engineered crops than Americans, so may be less likely to invest in GM technologies. However, some areas, such as renewable energy, are almost universally viewed as an ethical—and in the long term, essential—alternative

CASE STUDY

Creative investment
Ethical investment can be very creative: in the UK, venture capital company Bridges Ventures has provided capital to ventures such as The Gym, a fitness chain based in deprived areas, which offers low charges to its members; and the Hoxton Hotel, a successful operation in a run-down area of East London. It has funded Whelan Refining Limited, a company that recycles waste oil to produce base oil—the base for all industrial and automotive lubricants—and programs that provide low-cost housing for key workers. Bridges Ventures publishes an ethical charter that encompasses its approach to employees, suppliers and contractors, investors, the community, and the wider environment.

to the consumption of fossil fuels. Recent statistics bear out that ethical investment is more than a sideline to making money: ethical funds have performed well over the years, and the World Trade Organization is set to tighten regulations on companies that exploit people, animals, or the environment, making ethical investment a better bet for reliable investment.

TIP

KEEP IT REAL
Remember that ethical investors are still investors: they are looking for good financial returns and security as well as the promotion of socially responsible strategies.

Choosing your investment

Investments are made on your behalf every day, and you may not be aware of where your money is going. Select financial services providers, such as banks pension, and insurance companies that are transparent about the criteria they use to choose ethical investment. These are likely to be:

- **Negative criteria:** rejecting investment in firms involved in tobacco, the arms trade, and environmental damage, or those recently censured for misconduct.
- **Positive criteria:** seeking out companies that have a measurable positive impact on society or the environment, such as sustainable energy or recycling.
- **Engagement:** using your power as a shareholder to change for the better the ways in which the company engages with people and the environment.

Celebrating best practice

The theory and practice of business ethics is in constant evolution. While it draws upon traditions, laws, and regulations, it is always being shaped by its practitoners—the companies at the cutting edge of business. Some of these organizations have become famous for their good practice, trustworthiness, and integrity and for going well above and beyond their legal duties. Take some time to study their approaches to ethical business and ask if they can be used to benefit your organization.

Championing philanthropy

Some companies have become famous for their philanthropic activities, and their brands are associated strongly with good works. One such company is Google, a hugely influential force in the technology sector. Google believes that businesses have a duty to act responsibly and seeks to decrease the negative impact of business on the environment. As a result, it has created google.org, an organization dedicated to using technology to address worldwide issues, such as climate change and disease.

Google is also working with other nonprofit organizations to create a code of conduct that will help businesses deal with oppressive governments. So far, Google has donated more than $75 million in worldwide grants and investments. As Google chief compliance officer Andy Hinton puts it, "Google is dedicated toward changing the world for the better."

Engaging people

Many companies realize that ethics policies and standards mean little without the commitment of their employees and take measures to ensure buy-in from their staff. Texas Instruments (TI) provides an example. The electronics firm employs more than 30,000 people in over 25 countries and believes that partnership between employees and employer is crucial to an ethical corporate culture.

The company has a special office dedicated to ethics and has established multiple communication channels to inform staff about the latest ethical and legal issues in this fast-changing business. Texas Instruments provides advice on how to assess issues in its quick ethics test, which is distributed to employees. It asks employees to ask the following questions when they are unsure about the ethics of certain situations or behaviors:

- Is the action legal?
- Does it comply with our values?
- If you do it, will you feel badly?
- How will it look in the newspaper?
- If you know it's wrong, don't do it!
- If you're not sure, ask.
- Keep asking until you get an answer.

Going global

Applying ethics consistently in a globalized world is a challenge that has been successfully met by the leading package delivery company UPS, which does business in more than 200 countries. Despite the fact that it operates in so many different territories with their own languages, UPS maintains its high ethical integrity. To make sure that its ethical standards can be understood by different cultures, UPS offers its code of conduct materials in 12 languages.

UPS also participates in many philanthropic endeavors and has won an award from the US Environmental Protection Agency for coming up with innovative ways to reduce its carbon footprint. It has also received plaudits for encouraging diversity and for being one of the best places to launch a career.

Index

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O. C. Ferrell is Professor of Marketing and Creative Enterprise Scholar at Anderson School of Management, University of New Mexico.

Linda Ferrell is Associate Professor of Marketing and Creative Enterprise Scholar at the University of New Mexico.

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